By Phil Hunt

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Q: We are preparing to put our property on the market and it needs a lot of work — painting, carpeting, roof, yard and lots more. I am wondering if any of these expenses would be deductible from the profit on the sale of the property which would reduce the amount of our capital gains tax. Or, would it be deductible from our regular income tax. We live in the house and have been there for over 20 years; we have never rented it out.

A: I am not a tax accountant and I can not give tax advice. But here is what I have learned from doing business as a real estate broker:

My accountant tells me that taxes are a necessity and deductions are a privilege. I am not so sure about the privilege part, but I will take him at his word. It has always been my assumption that fix-up expenses involved in preparing a property for sale are deductable by capitalizing them into the basis of the property.

A higher basis means a smaller profit when sold. But, today, with the $250,000 automatic deduction from profit that an owner is allowed, if the property is their residence ($500,000 if it is owned by a married couple and if they have lived there 2 out of the last 5 years), I think the benefit of the fix-up expenses may be all but lost for most owners.

With the rather generous deduction from profit on the sale of the property, the raising of the basis by a few thousand dollars is probably not going to make a great deal of difference at tax time.

For most folks there will be no tax due on the sale because of the automatic deduction.

If it were an income property, for sure the fix-up expenses would be applicable and the automatic $250,000 or $500,000 deduction does not apply.

In that case, you would see a difference in the taxes after the sale.

If it were a commercial property, however, by doing a 1031 tax-deferred exchange, all taxes would be deferred until some day later when you sold the last commercial property and did not trade it into another. That would be the time that all the deferred taxes would be due.

But, if you died, your heirs would inherit the property with a step-up in basis as of the date of death. If your heirs sold the property for that value, there would be no tax liability. What a deal! You just have to die to beat the tax collectors.

No matter how many 1031 tax-deferred exchanges you made, no matter how much depreciation you had taken, no matter how much deferred taxes you had gained, it would all be forgiven for your heirs.

My advice is to discuss your particular circumstances with your tax professional and follow their advice. Nothing here should be construed as tax advice.

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